FEDERAL CROP INSURANCE IN 1945

After a lapse of about a year and a half Federal crop insurance is again available to producers of certain crops. Suspended in the summer of 1943 as a result of an appropriation limited to liquidating purposes, crop insurance was made available again by the Congress through an amendment to the Federal Crop Insurance Act approved December 23, 1944. Certain changes were made in the program by this legislation and other changes were made administratively; both with the objective of eliminating current deficits in operations and of bringing the benefits of this service to a larger number of farmers. Following are the more important changes in the insurance program from the way it existed previously.

1. Previously insurance was available only to producers of wheat and cotton. The new legislation makes it available to producers of flax also.

2. The new legislation also provides for trial insurance on other commodities for the purpose of determining the most practical plan, terms and conditions of insurance on such commodities. It is limited to a period of three years on each commodity in not to exceed 20 counties. Counties are to be representative of the various producing areas and although limited to 20, it was not intended that the maximum would be used unless necessary for adequate representation. Sufficient actuarial data must be available before such trial program is put into force in any county. This insurance is restricted to corn and tobacco for 1945 and insurance on only three additional commodities can be started each year thereafter. Annual reports must be submitted to the Congress on these trials. Although not limited thereto, the following commodities are mentioned in the Act: corn, dry beans, oats, barley, rye, tobacco, rice, peanuts, soybeans, sugar beets, sugarcane, timber and forests, potatoes and other vegetables, citrus and other fruits, and tame hay.

3. Insurance is provided against loss of yield in the case of wheat, cotton and flax. The amount of insurance may not exceed 75 percent of the average yield for the insured farm. Options of both 75 percent and 50 percent are offered although these coverages are modified as described later. Insurance against loss of yield may also be used for crops insured on a trial basis but insurance against loss of investment may also be tried with the coverage not to exceed 75 percent of the investment in the crop. Since one of the purposes of trial insurance is to determine the most suitable plan of insurance for the commodity, both yield and investment insurance, including certain modifications thereof, are being tried.

4. To avoid over-insurance where the insured does not incur the full cost of producing the crop all plans being used provide for a progressive coverage, i.e., the amount of insurance protection increases with the progress of the crop. For example, if a complete loss occurs early in the season (after it is too late to replant to the same crop) and the acreage is released (often for the planting of a substitute crop), the

amount of protection is only 40 or 50 percent as large, the percentage varying with the different commodities. Again where harvesting costs are saved coverages range from 75 to 90 percent of the full coverage depending on the commodity. It is believed that this plan will eliminate cases where it would otherwise be possible for the insured to obtain a larger income from indemnity under the insurance contract than his income would have been had he produced a crop equal to the amount of insurance protection. It is in line with sound insurance principles long recognized in insurance practice and law that indemnities should not exceed the actual losses incurred -- insurance should give protection against loss, not an opportunity for profit.

5. The formula set up for determination of the premium rates in the original legislation was dropped; thus giving more flexibility in their establishment. The Corporation was authorized to fix adequate premiums in commodities or cash at such rates as the Board deems sufficient to cover claims for crop losses and to establish, as expeditiously as possible, a reasonable reserve against unforeseen losses. (This reserve beginning in 1949 shall not be less than 10 percent of the premiums collected.) Whereas, under the past programs a separate premium rate has been established for each farm, provision is now made in the case of most commodities for a uniform premium rate within a county or area with higher rates for exceptionally hazardous farms.

6. Beginning in 1950 if losses claimed for an insured commodity in any year exceeds premiums less reserves applicable thereto, losses must be paid on a pro rata reduced basis.

7. The new amendment clarified the Corporation's power to refuse or limit insurance on the basis of the insurance risk involved. The Corporation will refuse or limit insurance on those farms or in those areas where the risk of loss is so large or unmeasurable that the farm cannot be insured on a sound basis.

8. The new amendment requires that a list of indemnities paid in each county must be posted annually in the county court house.

9. Minimum participation is required by the new amendment. Insurance cannot be provided in any county unless applications are filed covering at least 50 farms or 1/3 of the farms normally producing the agricultural commodities authorized to be insured. The purpose of this provision was in part to eliminate the expense of operating the program in counties where there is not a substantial demand for insurance. It was also believed that those persons desiring insurance in a county would use their influence to convince other farmers in the county of the merits of carrying insurance protection on their crops so as to reach the minimum.

   A minor exception was provided to the minimum participation requirements so that in a county without an insurance program farmers in a local producing area bordering on a county with a program could obtain insurance in such county.

10. Prior to 1945 all field administration in states and counties was performed by the AAA. This work involved: (1) The establishment of average yields and premium rates for individual farms under procedures of the Corporation and subject to Corporation approval; (2) The selling of insurance; (3) The determination of acreage; (4) The calculation and collection of premiums, and (5) The adjustment of losses.

The AAA will continue to perform the first four of these functions. Generally, in previous years insurance was sold by county and community committeemen who were paid on a per diem basis. In 1945 the Corporation will pay for the selling of insurance on a commission basis. Persons other than personnel of the AAA organization may be agents for crop insurance in 1945. Merchants, grain and seed companies, farmers cooperative associations, banks, insurance agencies, farm organizations and other qualified persons may be agents. The commission paid will be in part a flat amount per contract plus a certain amount on the premium. Commissions on insurance sold in AAA county offices will be paid to the county association. The use of the commission plan of payment and the use of agents other than AAA personnel should stimulate participation in the program.

11. Beginning in 1945 the adjustment of losses will be performed not by the AAA but by adjusters who will be employees of the Corporation. The Corporation will have a state director of insurance with district supervisors to assist him. In addition, where the volume of business justifies it, local persons will be trained as adjusters. District supervisors will adjust some losses and will train and supervise the local adjusters who will be paid only when actually employed. In addition to the adjusting of losses the state director will have considerable responsibility, along with the AAA state committee, for the development of the insurance program in the state and for its success there.

12. Beginning in 1950 the administrative expenses, although continuing to be provided by special appropriation as in the past, may not exceed 25 percent of the amount of the premiums collected in the preceding year.

Special Provisions Regarding Commodities

13. Spring wheat is the only wheat insured for 1945. The winter wheat crop to be harvested in 1945 was planted before the amendment to the Act was passed. Insurance on wheat is written on the basis of a 3-year term contract. A uniform premium rate for all farms in the county (or for an area within the county) is used except in the case of extra hazardous farms.

14. Flax crops are insured in 1945 in the principal flax producing areas. No insurance was written on flax produced in areas where it is customary to plant during the fall or winter. The flax insurance is based on an annual contract. Premium rates are uniform for all farms in a county (or in an area within a county) except for extra-hazardous farms.

15. 1945 cotton crops are insured under annual contracts. Insurance was not made available on American-Egyptian cotton. Separate premium rates were established for each farm based in part on the loss experience for the farm and in part on the loss experience for the county. Insurance against loss of cottonseed is provided by increasing the premium and increasing any indemnity determined on lint cotton by 20 percent. Previously all cotton insurance sold included the cottonseed provision. In 1945 it was made optional.

16. Corn crops are being insured in 1945 on a trial basis in about 15 representative counties. Insurance is being written on an annual contract. Two types of insurance are being offered; (1) Insurance against loss in yield under a plan similar to that for wheat, flax, and cotton, and (2) insurance against loss on investment with a coverage not to exceed 75 percent of the investment in the crop as determined by the Corporation on the basis of representative costs in the area. Under the investment plan the amount of insurance coverage is stated in dollars. In general the amount of loss is determined as the amount by which the returns from the crop fail to equal the amount of coverage.

17. Tobacco crops are being insured in 1945 on a trial basis in approximately 12 counties representing different producing areas. Insurance is written on an annual contract basis. Two plans of insurance are being offered. One plan is referred to as the yield-quality plan. It is similar to the plan used for yield insurance in wheat, flax, and cotton except that the coverage is converted to a monetary basis by multiplying the coverage in pounds of tobacco by the price of tobacco during the first five days of the marketing season adjusted somewhat for individuals to reflect their past experience over a period of years in selling above or below the market average. The amount of loss is determined in general as the amount by which the returns from the crop fail to equal this coverage. The investment plan of insurance is also offered on tobacco.